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Craven County**Administration Building**

406 Craven Street
New Bern, NC 28560
Fax 252-636-6638
manager@cravencounty.com

Administrative Staff

Harold Blizzard, County Manager
George B. Sawyer, Assistant Manager
Gwendolyn M. Bryan, Clerk to the Board
Rick Hemphill, Finance Officer
Ray H. Moser, Human Resources Director

Commissioners 252-636-6601
Manager 252-636-6600
Finance 252-636-6603
Human Resources 252-636-6602

September 20, 2002

To the Citizens of Craven County, North Carolina

The comprehensive annual report of Craven County for the fiscal year ended June 30, 2002, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rest with the County. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the operation of the County as measured by the financial activity of its various funds and account groups. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

The comprehensive annual financial report is presented in four sections: Introductory, Financial, Statistical, and Compliance. The Introductory Section includes the transmittal letter, the County's organizational chart and a list of principal officials. The Financial Section includes the general purpose financial statements and the combining and individual fund and account group financial statements and schedules, as well as the auditor's report on the financial statements and schedules. The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis. The Compliance Section presents information required by the Single Audit Act, which is discussed below.

The County is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984, and U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments and Non Profit Organizations, and North Carolina's State Single Audit Implementation Act. Information related to this single audit, including the schedule of federal and state financial assistance, findings and recommendations, and auditor's reports on the internal control structure and compliance with applicable laws and regulations, are included in the Compliance Section of this report.

The financial reporting entity includes all the funds and account groups of the primary government (Craven County), as well as its component units. Component units are legally separate entities for which the primary government is financially accountable. Discretely presented component units are reported in a separate column in the general purpose financial statements to emphasize that they are legally separate from the primary government and to distinguish their financial positions, results of operations, and cash flows from those of the primary government. The Craven Regional Airport Authority, Craven County Alcoholic Beverage Control Board, Craven County Tourism Development Authority and Craven Regional Medical Authority are included as discretely presented component units in the reporting entity. However, the Craven County Board of Education, the Craven-Pamlico-Carteret Regional Library, Eastern Carolina Council, Craven Community College, Craven County Economic Development Commission, and the Coastal Regional Solid Waste Management Authority have not met the criteria for inclusion in the reporting entity as component units and, accordingly the financial information for these organizations is excluded from this report. Each of these entities publishes its own annual financial report to which the reader is referred. For financial reporting purposes, transactions between The Craven County Finance Corporation and the County have been eliminated in order to more clearly reflect the substance of the underlying transactions. This Corporation was established by the County to assist in obtaining financing for a capital project and the only transactions of the Corporation relate to that project.

ECONOMIC CONDITION AND OUTLOOK

Craven County is located midway along North Carolina's lace work coastal fringe and is diverse in its physical characteristics, demographics and economic base. Settled in 1710 by Swiss and German immigrants at the confluence of the Trent and Neuse Rivers, New Bern, the county seat, is the second oldest town in the state. The City of Havelock is home to Cherry Point, the world's largest Marine Corps Air Station, employing over 5,500 civilian workers. In recent years the area has become less dependent on agriculture as the mainstay of the economic base and has revealed itself as a desirable destination for tourists, drawn by abundant opportunities for conventions, golf, sailing, beaches, fishing, hunting and touring over 150 historic landmarks. Directly related to Craven County's popularity as a tourist destination is the County's reputation as a desirable retirement community. This has resulted in rapid growth of residential development aimed at retirees.

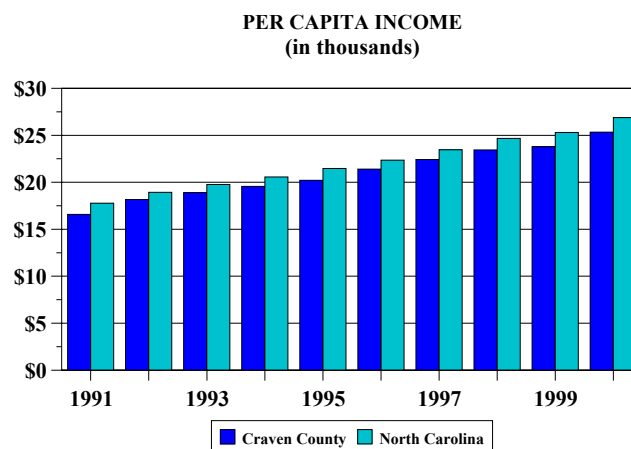


Figure 1

Compared to the general economic conditions the country and state experienced during this past year, the County fared reasonably well. Per capita income increased substantially by 6.6% for the year 2000 (the latest information available) compared to the previous year. While the County's per capita income level remains below the state average, the level is above most other counties in the region. The County ranked twenty-third out of one hundred counties in the state in per capita income, compared to twenty-sixth in the previous year. Figure 1 shows the relationship of the per capita income levels for the County and the State for the past ten years. Employment at most of the major manufacturing employers in the County, such as Hatteras Yachts, Moen, Amital Spinning, Maola, BSH Home Appliances, Weyerhaeuser and Chatsworth remained relatively constant during the past year while the number of civilian jobs at the Naval Aviation Depot at Cherry Point Marine Corps Air Station decreased by 3.4%. The unemployment rate increased during the past year from an unadjusted annual unemployment rate of 4.2% for calendar year 2000 to a rate of 5.2% for calendar 2001. Figure 2 depicts the calendar year unemployment rate for the County and the State for the past ten years. The graph shows that for the first time in ten years the rate for the County was lower than the rate for the State. This is reflective of the fact that Craven County is not as dependent as other regions of the State on the furniture and textile industries which have been hit hard during the recent economic downturn. The County's unemployment rate continues to be one of the lowest in the region.



Figure 2

During fiscal 2002, BSH Home Appliances, a major manufacturer in the County, announced plans to expand its operation in the County to add additional product lines to its existing operation which primarily consists of manufacturing dishwashers. Products added will include cook tops, hoods, ranges and washer/dryers. BSH currently employs 450 employees and has an investment of \$16 million in the County. Plans are to add \$170 million to their investment and 1,400 additional jobs over the next 5 years. Construction began in January, 2002 for the additional plant facilities, located adjacent to the existing plant. An economic incentive package was put together by the State, the City of New Bern and the County to attract BSH to the County. Once the additions are completed, BSH will become the second largest taxpayer in the County (behind Weyerhaeuser) and the second largest employer (behind the Naval Aviation Depot at MCAS Cherry Point).

Retail trade continues to be a large component of the economic base of the County. The total retail sales in the County of \$900 million (see figure 3) declined from the prior year by 3.2% but this decline was less than that of the

overall State's reduction of 3.7%. One of the major catalysts for retail sales in the County is the tourism industry. Occupancy taxes collected by the Craven County Tourism Development Authority from lodging facilities in the County decreased by 5.5% during a period when many areas experienced much larger declines in tourism. Occupancy tax receipts for the first half of the fiscal year were significantly lower due to the impact of the events of September 11, 2001 on travel and tourism in general. The second half of the year showed marked improvement over the prior year. Fiscal 2002 was the second year of operation for the New Bern Riverfront Convention Center. Even with the nationwide slowdown in the tourism industry, the success of the first year continued in fiscal 2002. The center, located in historic downtown New Bern, was constructed by the County at a cost of \$12 million. The facility is approximately 45,000 square feet and houses a 12,000 square foot ballroom designed to seat and serve groups of up to 1,500. The site of the facility is adjacent to one of the major hotel facilities and within walking distance of two others. The debt incurred for the building is being serviced through the increase in the occupancy tax from 3% to 6%, enacted in November 1996. Revenue generated by the Center for fiscal 2002 was \$451,000, a 39% increase over the ten months of fiscal 2001. This was 5% higher than the budgeted revenues for fiscal 2002. The Center experienced a loss of \$133,000 against a budgeted loss of \$196,000. The Center was not intended to generate a direct profit on its own, but to stimulate the economic impact in the community. During fiscal 2002, the Center generated 13,100 overnight rooms and generated an economic impact of \$8.2 million for the County.

RETAIL SALES
(in millions)

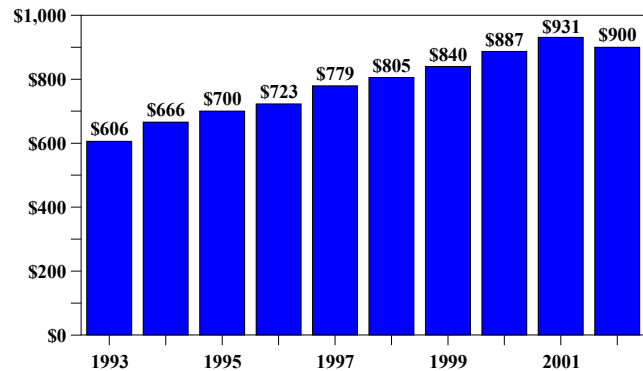


Figure 3

The increased occupancy tax will also be used to build a tourist center in Havelock. The center in Havelock is nearing completion and scheduled to open in December 2002. This center has been constructed in conjunction with a 60 room lodging facility presently in operation in Havelock. The center will house a Marine Corps air display, as well as, provide meeting facilities. The State has completed demolition on the former Barbour Boatworks site and is preparing to begin construction of a wetlands restoration project on the site, the first phase of a long range plan. This site will become an education/visitor center for the Tryon Palace and Gardens and is located between the Tryon Palace and the Sheraton Hotel, near the Convention Center. Once completed this site will be an attractive addition to the waterfront development of downtown New Bern.

Government continues to be the largest single employer in the County with 34 percent of all jobs. The U.S. Marine Corps Air Station at Cherry Point, the largest Marine Corps Air Station in the world, provides employment for a total work force of 13,467 personnel, including 5,548 civilian jobs. The total payroll for the base in 2002, including the Naval Aviation Depot, is expected to be approximately \$649 million while the total economic impact of the Marine Corps Air Station at Cherry Point, including the depot, is estimated to be \$784 million for the state of North Carolina. Of this amount approximately 85% will be spent in Craven and the adjoining three counties. The military and the local community have developed a strong relationship from which both have benefited. After government, the other large employment categories in the County are services employment with 20.6 percent of the work force, retail and wholesale trade providing 19.6 percent, and manufacturing with 12.6 percent of the total work force.

MAJOR INITIATIVES

For the Year. The County's General Fund balance increased by \$695,000 this year, or 4.1%. The County's unreserved General Fund balance at June 30, 2002, represents 17.4% of actual expenditures and transfers out for fiscal year 2002. The statewide average for fiscal year ending June 30, 2001, was 18.59%. Craven County's unreserved fund balance percentage was 16.3% for the same period. During the second quarter of fiscal 2002, Craven County anticipated a reduction in available fund balance due to revenues of approximately \$660,000 being held by the State. Additionally, investment earnings were significantly lower than budgeted due to the drop in interest rates. During the last half of the fiscal year, the County implemented cost savings procedures to reduce

expenditures to a level that could be supported by current revenues. This measure, in addition to a lower than budgeted Medicaid expenditure, allowed the County to not only maintain the current level of fund balance but to add \$695,000 to the general fund balance. This will be explained further in a following section of this letter, General Fund Balance. Expenditures for fiscal 2002 were approximately \$4.6 million below the budgeted amount while revenues were \$2.2 million below the budgeted level. The tax rate for fiscal 2002 was raised by three cents to \$.60, per \$100 of property valuation.

A major upgrade project to the County's water system was completed during the fiscal year. A \$2.76 million grant from the North Carolina Department of Environment and Natural Resources (NCDENR) was used to upgrade lines along Highway 70, through Township 6 to Township 5, the easternmost portion of the County. This project was necessary to insure that water service would be available to new customers in Township 5. It is expected that this project will cover water demand in this area for the next twenty years.

During the fiscal year, proceeds from the 1996 State School Bonds were used to complete the renovation and addition projects at existing schools in the County. Nine major additions were constructed with the State Bond money, as well as, other significant renovations of buildings and heating/air conditioning systems. The total \$22 million of State School Bond funds allocated to Craven County was expended by the end of fiscal 2002.

The County sold \$28 million of general obligation bonds to finance the replacement of two aging elementary schools, construct auditoriums at two high schools and replace roofs on five schools. The referendum to issue the bonds, held in November 2001, passed by a 64% majority. The 20 year bonds were sold in May, 2002 at a net interest cost of 4.879% and will be serviced through the County's Debt Service Fund. Revenues to this fund are the portion of sales tax dedicated to school construction and the funds received from the Public School Capital Building Fund.

The octennial revaluation of all real property in the County was completed during fiscal 2002. The revaluation was done completely in house and resulted in an overall increase in taxable value of 22% over the January 1, 2001 values. The value established by this revaluation will be used for the upcoming tax billing for fiscal 2003.

The development of the County recreation complex continued during the past fiscal year. Creekside Park, a site of over 100 acres, was purchased in fiscal year 1996 and construction was begun in fiscal 1997. During the past year, the County appropriated an additional \$35,000 toward the park construction. Work completed during the past year included the construction of a new roadway providing additional access to the park. The Marine Corps from MCAS Cherry Point assisted the County in constructing this road through the Airport property. Upon completion, this road was added to the State roadway system to provide continuing maintenance. Rest room facilities for the baseball fields were also completed during fiscal 2002. During the upcoming fiscal year the waterfront area will be completed to include docks, boat ramps, picnic shelters and walking trails.

The County implemented the HTE software package for permitting and planning in fiscal 2002. In connection with this project, the County centralized the permitting function in a one stop office. This involved a consolidation of permits for the planning, environmental health and water departments. Citizens can now go to the planning office and complete all paperwork to get the permits necessary for construction projects. The County made additional information available via the Internet during the past year such as Register of Deeds records and images, permitting information and forms, recreation schedules and forms, and information regarding pets at the animal shelter available for adoption.

The County began participating in the debt setoff program made available to local governments by the State. Approximately \$44,000 of delinquent property tax, water bills and health department fees were collected during fiscal 2002 through this program which involves the County reporting outstanding debts to the North Carolina Department of Revenue who offset these debts against personal income tax refunds and remit the funds to the County. The County also began using a lock box for property tax and water bills in 2002. Additionally, the County chose to outsource the billing process of property taxes and water service. The combination of the lock box and the outsourcing of billing has allowed the tax and water departments to reduce labor costs and become more efficient in their operation.

During the year the County completed renovation of the Administration Building. This involved moving several departments to larger offices vacated by the Tax and Register of Deeds after their move to the former Sun Journal newspaper office building. A \$300,000 project to replace the slate portion of the roof on the historic County Courthouse was begun during the fiscal year. The slate roof being replaced is the original roof on the courthouse constructed in 1883.

Construction began on the Community College classrooms and public library in Havelock along with the Institute of Aeronautical Technology facility. All three buildings are being constructed as one project. Funding for the Institute was provided by the State of North Carolina. The County is financing the \$4 million classroom and library with \$2 million of State Bond funds and \$2 million of County funds. The library will be a joint public/college facility and will replace a small aging library building currently in use in Havelock. The entire complex is constructed on land acquired from the Federal government adjacent to Marine Corps Air Station Cherry Point. The IAT, classroom and library are expected to open in the fall of 2003. Also during the fiscal year the County acquired a building in Cove City to house the branch of the public library currently located in a small area in the Cove City Town Hall.

The County completed construction and opened a work release center designed to house up to 40 low risk, nonviolent inmates. This facility has already begun to alleviate some of the crowded conditions in the jail facility. It was constructed as a low cost, low maintenance dormitory type facility and is located on County owned land adjoining the State Corrections Department Processing Center near Vanceboro.

In March, 2002, the County finalized the transfer of the water and sewer system in the Industrial Park and the sewer operation in the Neuse River Water and Sewer District to the City of New Bern. In the past, the County purchased water and sewer services for the Park from the City and resold it to the tenants in the Park. The County concluded it would be more efficient and less expensive to allow the City to deal directly with the tenants of the Park. The Neuse River Sewer System was the only sewer operation in the five water and sewer districts operated by the County. The system was expanded over the past several years to treat wastewater to reuse quality and additional spray fields were acquired. The system has only 2,000 customers which made it difficult to absorb costs related to changing standards and expansion of the system. The City expressed an interest in acquiring the system and negotiations were finalized in 2002 which resulted in the City offering a user rate of 115% of the rates paid by in-city customers netting the customers of the District a lower rate than previously. The normal out of city rate is 200% of in-city rates. The District (County) transferred ownership of the system to the City in exchange for the City assuming approximately \$3.75 million of debt.

The County contracted with the Tourism Development Authority (TDA) to provide all marketing and administrative functions, as well as, operate the visitors center in exchange for \$285,000 of occupancy tax revenue collected by the TDA. The visitor center was moved to the Convention Center owned and operated by the County. Additional employees were hired by the County to staff the center and provide marketing efforts for the promotion of Craven County to potential visitors. The TDA and the County think this arrangement will provide a much more efficient and effective means to promote the area.

For the Future. The budget for fiscal 2003 was adopted with a tax rate of \$.58 per hundred dollars of valuation, a two cent decrease from fiscal 2002. Because of the revaluation process, as of January 1, 2002, this decrease will actually result in an increase of property tax revenue to the County. The revenue neutral rate of 53.5 cents on the new valuation would have resulted in the same property tax revenue as fiscal 2002. The increase in property taxes was due to a \$500,000 estimated increase in the County's portion of Medicaid benefits and a \$2 million loss of revenues as a result of the State withholding revenues from local governments. These two items alone added 5 cents to the County property tax rate for the upcoming year. The total budgeted expenditures decreased from the final 2002 budget by \$825,000 as the County budgeted no new positions and very little capital outlay. The funding for the public schools and community college was kept approximately at prior year levels. The State has adopted legislation which gives counties the option of adding an additional half cent to the current 2 cents sales tax collected for local governments to be effective no earlier than December 1, 2002.

The County has plans to continue to improve its technological capabilities during the upcoming year by bringing the HTE software for the water department on line during the second half of fiscal 2003. Additionally, access to more information will be made available through the County's web site in the upcoming year.

Upcoming plans for the water system include the continued study of alternate water sources and a major upgrade to the system to ensure that water is available to all citizens in the County as soon as possible. The County has been approved for a loan in the amount of \$1.6 million from the State Revolving Loan Fund to finance the upgrade of the system. The rate on this loan is 2.7% and will be used to add lines on roads in the Northwest Craven area to the system. The roads being added were not sufficiently populated to justify water lines at the time of the original construction of the system. Construction bids were recently accepted for this project and bidding was very competitive. A plan to evaluate the Pee Dee aquifer as a supplement to the Black Creek aquifer was recently approved by the Board of Commissioners. This will involve drilling test wells into the Pee Dee at present Black Creek well sites in order to evaluate the water quality and determine the ratio of Pee Dee water that can be blended with the Black Creek water and still not require treatment. It is expected that a ratio of approximately 30% Pee Dee water to 70% Black Creek water can be accomplished. If so this would allow the County to make the mandatory 25% reduction in the Black Creek by 2008 and be slightly short of the 50% reduction by 2013. The total investment required for this option would be approximately \$1.4 million but is significantly less than the cost of the \$10 million option of the Castle Hayne aquifer which would require a water treatment plant. The need for an alternate water supply is a result of the upcoming capacity use rules, imposed by the State, limiting the volume of water that all users of the Black Creek aquifer may withdraw. The Black Creek aquifer is currently the single source of County water. The County water rates were increased by approximately ten percent in July 2002, in anticipation of these improvements and costs of an alternate water supply.

The County will engage a consultant to do a feasibility study on the alternatives available to the County for the overcrowded conditions at the existing jail. The current jail was originally built to house approximately 78 inmates and was then double bunked in areas to provide capacity for approximately 128 inmates. The average daily inmate population is 130. The work release center has provided some relief but was not expected to be the ultimate answer to the problem. It was constructed to give the County time to evaluate options and if necessary construct a new jail. The work release center is limited to housing only sentenced nonviolent offenders and the majority of inmates held in the jail are awaiting trial and thus not eligible to be housed in the work release center.

The County plans to evaluate the possibility of constructing a building to house a maintenance facility for the water department as well as the County garage. Currently the County is leasing space for the County garage which provides service for all vehicles owned by the County. The property being considered is owned by the water department who would construct and own the building.

The current method of providing ambulance service to the citizens of the County will be reviewed in the upcoming year. At present the County contracts with six volunteer and one municipal rescue squad to provide coverage in the unincorporated areas of the County. The volunteer squads have been experiencing difficulty in maintaining coverage during the weekday daytime hours. Fewer and fewer people are available to answer calls during normal work hours and as a result the County has provided funds to three of the squads for the past several years to hire daytime personnel to answer calls. The other squads have now asked for this funding and the result would be substantial additional cost to the County. The various options available to the County to solve this problem will be examined and evaluated during the next fiscal year.

One of the major items affecting the County in the upcoming year will be the decision by the Navy on where to locate 10 squadrons of F/A-18 E/F aircraft (Super Hornets). The Navy is considering several options, some of which include some of the squadrons coming to MCAS Cherry Point. Other sites being considered are Oceana, Virginia and Beaufort, South Carolina. The two preferred options at this time have at least two of the squadrons and as many as four coming to MCAS Cherry Point. The location of any of these squadrons at Cherry Point will have a significant impact on the economy of the County.

A related item will be an upcoming decision by the Navy involves the location of an Outlying Landing Field (OLF). Currently the Navy is evaluating several sites for this OLF. The two preferred sites are in Craven and Washington counties. The Navy is looking for areas that are very sparsely populated with significant rural buffers for the runways. The economic impact of the OLF is not significant in itself. It is expected that should the County support locating the OLF in Craven County, it may assist with getting the Super Hornets located at Cherry Point. A decision on the squadrons and the location of the OLF are expected to be made in the spring of 2003. To provide for the continued protection of the Marine Corps Air Station at Cherry Point, the County partnered with Carteret County and several municipalities to fund a joint land use study of the area surrounding the existing base.

A draft report has been issued and is currently under review. Additional zoning of land around the base is recommended in the report and is currently being considered by the Board of Commissioners.

FINANCIAL INFORMATION

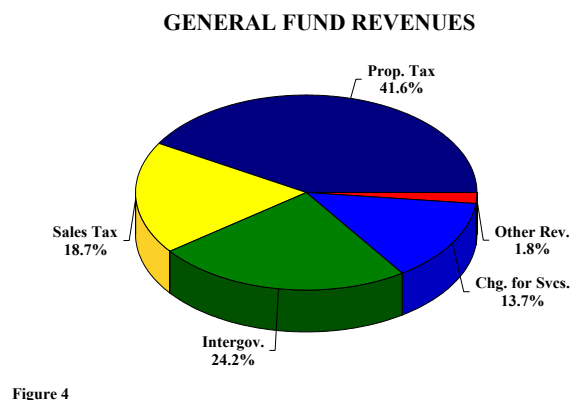
The management of Craven County is responsible for establishing and maintaining an internal control structure designed to assure that the assets of the County are protected from loss, theft or misuse and to assure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonably, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Single audit. As a recipient of federal and state financial assistance, the County also is responsible for assuring that an adequate internal control structure is in place to assure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management. As a part of the County's single audit, described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to federal and state financial assistance programs, and to determine that the County has complied with applicable laws and regulations. The results of the County's single audit for the fiscal year ended June 30, 2002, provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

Budgeting controls. In addition to the above mentioned internal control structure, the County maintains budgetary controls. The objective of these budgetary controls is to assure compliance with legal provisions embodied in the annual budget ordinance adopted by the Board of County Commissioners. Activities of the General Fund, Debt Service Fund, and certain special revenue funds are included in the annual budget ordinance. Project length financial plans are adopted for those projects that are expected to require more than a fiscal year for completion. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level in the General Fund and the special revenue funds. The County also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year end, however, encumbrances generally are re-appropriated as part of the following year's budget. As demonstrated by the statements and schedules included in the financial section of this report, the County continues to meet its responsibility for sound financial management.

GENERAL GOVERNMENT FUNCTIONS

General Fund Revenues. The following schedule (next page) presents a summary of the General Fund for the fiscal year ended June 30, 2002, while figure 4 shows a graphic representation of the various revenue sources of the County's General Fund for the most recent fiscal Year. Total General Fund Revenues increased by \$2,179,070 due entirely to property taxes and charge for services. Following is a description of each of these revenue sources and discussion about each including an analysis of changes from last fiscal year to the current year.



Revenues	Amount	% of Total	\$ Change from 2001	% Change from 2001
Property Tax	\$ 26,995,883	41.6%	\$ 1,829,983	7.3%
Sales Tax	12,092,636	18.7%	(399,889)	(3.2)%
Intergovernmental	15,717,804	24.2%	(208,244)	(1.3)%
Charges for Services	8,919,067	13.7%	1,680,553	23.2%
Interest	398,890	.6%	(692,667)	(63.5)%
Miscellaneous	761,175	1.2%	(30,666)	(3.9)%
Total	\$ 64,885,455	100.0%	\$ 2,179,070	3.5%

Property tax collections of \$27 million, the County's primary source of revenue, represent 41.6% of the total General Fund revenue of the County. The increase this year was due to primarily to the increase in the tax rate from \$.57 to \$.60 per \$100 of taxable property. The growth in the tax base accounted for approximately \$400,000 of the increase in property tax revenue, as total taxable property values increased by 2.2% in the County. The collection percentage decreased very slightly from 97.29% last year to 97.04% for the current year. Figure 5 shows property tax revenues for the past five fiscal years. All of the increase in taxable value was due to growth in the tax base since the last revaluation of property took place in the fiscal year 94-95. The continuation of a

PROPERTY TAX REVENUE
(in millions)

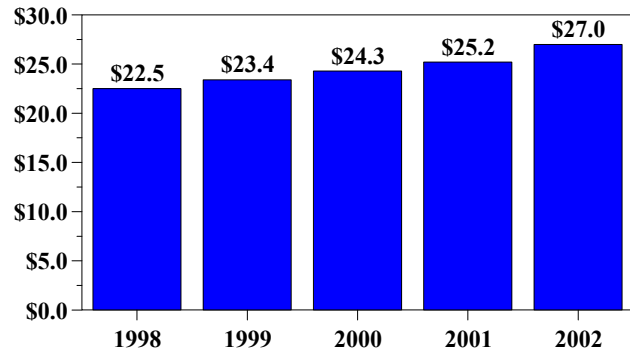


Figure 5

PROPERTY TAX RATES
(per \$100 valuation)

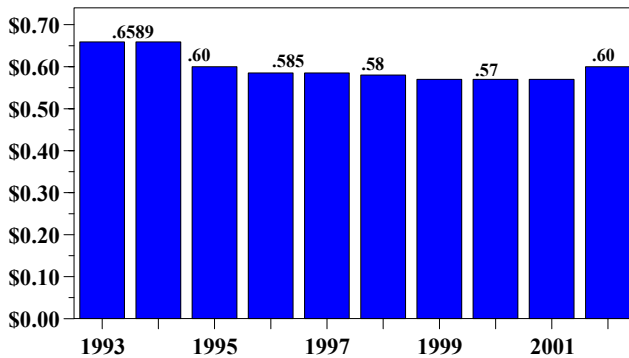


Figure 6

Figure 7 shows the growth in the property tax base over the past ten years, as well as the breakdown of the major components of the tax, real property, personal property and state certified property. In ten years the total value of all property in the County has increased by 77% from approximately \$2.6 billion to \$4.6 billion. Personal property has increased at a faster rate than real property.

strong property tax collection rate has allowed the County to recognize the full benefits of the increased valuation of taxable property and to lower the tax rate four times in the past seven years without a revaluation during that period. Property tax revenues have increased by 20% since 1998 and have remained consistently around 40% of the total General Fund revenue during this five year period. Figure 6 shows the County's property tax rate per \$100 of valuation over the past ten years.

ASSESSED VALUATION
(in billions)

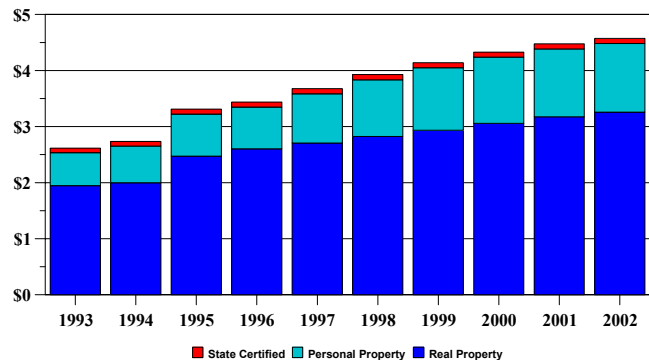


Figure 7

While the property tax levy per capita has increased 52.8% during the past ten years, it is interesting to note

that in constant dollars the increase has been only 12%. The levy for this fiscal year was \$299 per person which equals only \$165 per person in 1984 dollars (the base period). Constant dollars reflect the effect of inflation on the value of the property tax revenue received. The annual tax levy per person has increased only \$17.75 over the past ten years when the effects of inflation are ignored. In total dollars the annual tax levy per person has increased by \$84.84 per person. To put this into further perspective, the annual per capita income for residents of Craven County has increased 68% or \$10,217 over the last ten years (for which data is available, 1991-2000).

SALES TAX REVENUE (in millions)

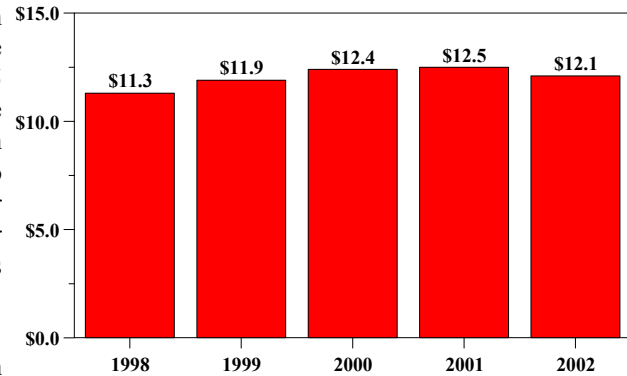


Figure 8

Sales tax revenue decreased by 3.2% (see figure 8) from the prior year and breaks a string of nine years of steady growth in the second single largest source of revenue for the County. Sales tax revenues have increased by 7% over the past five years. The local option 2% sales tax accounts for 18.7% of the total revenue of the County. A percentage of the two half cents local option sales taxes are designated by state law to be spent for school capital outlay. That amount for fiscal 2002 is \$3.1 million of the total \$12.1 million and was transferred to the Debt Service Fund to meet the obligations for school construction. The County had expected to lose approximately \$300,000 of sales tax revenue as a result of the 2000 census. The growth in population in the County was less than that of the State average and as a result the percentage of sales tax allocated to Craven County, based on population, was reduced. The general economic conditions caused a significant downturn of sales tax in the fourth quarter of calendar 2001 but there were improvements in the second half of fiscal 2002.

INTERGOVERNMENTAL REVENUE (in millions)

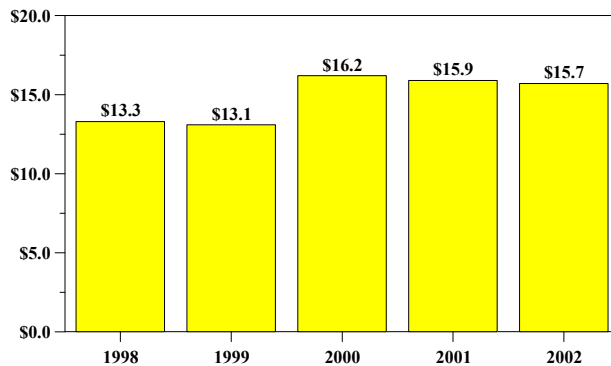


Figure 9

Intergovernmental revenues are funds received from federal or state governments or other governmental agencies. They are received as support for a specific program as either a grant or a reimbursement of expenditures. These revenues make up 24.2% of the total County revenue budget. The decrease of 1.3% this year was due to the loss of State reimbursements for the second payment of the business inventory tax reimbursement, beer and wine permits, and the senior citizen homestead exemption. The total of these three items was over \$600,000. In fiscal 2003 the State did not budget paying local governments any of these reimbursement revenues. The total affect on the County in fiscal 2003 is approximately \$2 million and was made up by cutting expenditures and raising property tax revenues. By State law these reimbursement revenues from the State will cease July 1, 2003 (fiscal 2004) and are to be replaced by an additional one half cent local

sales tax. Figure 9 shows the history of intergovernmental revenues for the County for the past five years. The significant spike of intergovernmental revenues in fiscal 2000 was the result of funds received from the State and Federal governments in connection with Hurricane Floyd recovery.

Charges for services increased by 23.2% this year. There were several reasons for this increase including additional Medicaid, Medicare, and third party insurance receipts of approximately \$600,000 by the Home Health/Hospice, dental, and other operations of the Health Department. Also fiscal 2002 was the first full year of operations of the New Bern Riverfront Convention Center with increased revenues of \$125,000 over the ten months of operation in fiscal 2001. Building inspection revenue was up \$20,000 in fiscal 2002 over the prior year due to a larger volume of permits issued. Revenue in the Register of Deeds Office was up \$200,000 due to increased fees as set by the State of North Carolina. Ambulance fees were increased by the County as of July 1, 2001 and resulted in an additional \$88,000 of revenues. These revenues are

used to support the costs of the volunteer rescue squads. Environmental health fees were also increased for fiscal 2002 and generated an additional \$30,000 of revenue. The fee for curbside recycling charged to all residential property owners was increased in fiscal 2002 due to the re-bidding of the contract for recycling collection services. The bids came in higher than the previous year and fees were increased from \$18 per year to \$24 per year. This generated an additional \$400,000 of service charge revenue. The County bases the amount charged for recycling entirely on the cost of the contract. Local governments have been forced to increase fees to generate more revenue through charges for services due to the State cutbacks and increased cost of providing the services. Figure 10 reflects the past five year history for charges for services.

CHARGES FOR SERVICES

(in millions)

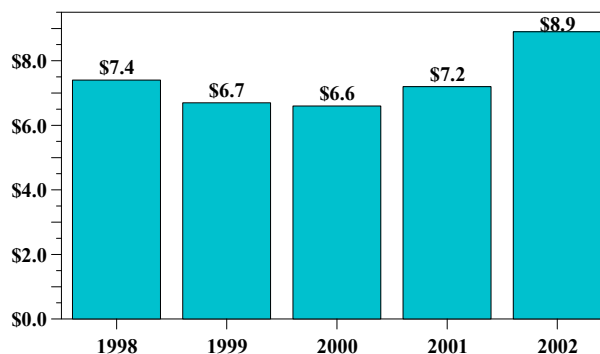


Figure 10

GENERAL FUND EXPENDITURES

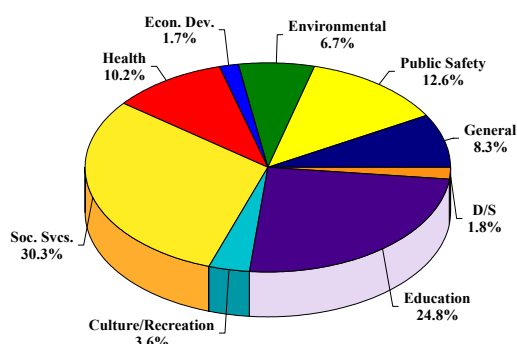


Figure 11

Other revenue includes interest earned on investments and miscellaneous sources of revenue. The decrease in other revenues from the previous year was due to the decline in interest rates during the fiscal year. Interest in the general fund decreased by 63% or approximately \$700,000 from the amount generated in fiscal 2001.

General Fund Expenditures. The following schedule presents a summary of the General Fund expenditures for the fiscal year ended June 30, 2002. Figure 11 shows a graphic representation of the same data. General Fund expenditures increased by approximately \$1.8 million or 4.5% in fiscal 2002 over the prior year. This increase is not due to any particular category of expenditure as most increased

from the prior year. Following the chart below is an explanation of each of the expenditure categories and a brief description of the expenditures in each category. Also an analysis of the major expenditures and comparison to the prior year is offered.

Expenditures	Amount	% of Total	\$ Change from 2001	% Change from 2001
Current:				
General Government	\$ 5,084,859	8.3%	\$ (234,894)	(4.4)%
Public Safety	7,739,345	12.6%	595,275	8.3%
Environmental Protection	4,114,223	6.7%	264,914	6.9%
Economic Development	1,025,023	1.7%	(225,456)	(18.0)%
Health	6,297,018	10.2%	286,365	4.8%
Social Services	18,614,048	30.3%	329,154	1.8%
Culture & Recreation	2,202,975	3.6%	177,086	8.7%
Education	15,235,173	24.8%	489,083	3.3%
Debt Service:				
Principal Retirement	743,160	1.2%	105,685	16.6%
Interest & Fees	416,966	.6%	57,967	16.1%
Total	\$ 61,472,790	100.0%	\$ 1,845,179	4.5%

General government expenditures accounted for approximately 8% of the total General Fund expenditures. General government expenditures decreased by 4.4% this year. This reduction was due to higher claims in the self funded health insurance plan of the County in fiscal 2001. A \$350,000 transfer was made at year end to fund the projected deficit in the Internal Service Fund used for health insurance. Due to the timing of the charge, the transfer was recorded as a non-departmental expenditure (part of general government) rather than being charged out to the operating departments. The claim cost for fiscal 2002 was comparable to 2001 but there was no year end adjustment required. Cost of the plan was budgeted originally at a higher rate in 2002 and was budgeted in the operating departments. General government consists of the administration, personnel, data processing, finance, tax collector and assessor, the register of deeds, central maintenance garage, elections departments as well as the cost of the buildings that house most of the County Departments and certain non-departmental costs that are not attributable to a specific department. Figure 12 shows the general government expenditures for the past 5 years.

GENERAL GOVERNMENT (in millions)

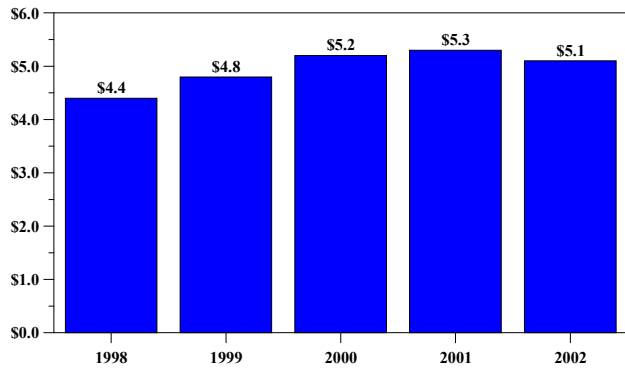


Figure 12

PUBLIC SAFETY (in millions)

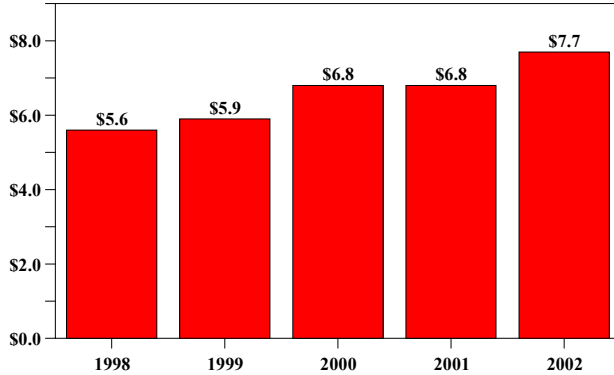


Figure 13

Public safety expenditures increased by 8.3% as a result of increased funding in several areas. The Sheriff Department expenditures increased by \$137,000 due to higher personnel costs. In addition, fiscal 2002 was the first year of operation of a State grant to provide highway safety by sheriff departments. Expenditures for this grant accounted for an additional \$135,000 of increased expenditures by the Sheriff's department. Fiscal 2002 was the first year for operations of the work release center at a cost of \$224,000. Funding for volunteer rescue squads was approximately \$179,000 higher during the past year due to more requests of the County for funding part time positions during the daytime hours. Expenditures for the E-911 system

increased by \$150,000 due to the upgrade of equipment and software in the communications center. Public safety expenditures account for 12.6% of the General Fund and have increased by 38% over the past five years (see figure 13). With the recent events of September 11, 2001, additional funding has been provided to public safety at all levels of government. Public safety includes the following departments: animal control, Sheriff, day reporting center, jail, communications, medical examiner, fire marshal, inspections and volunteer rescue squads.

Environmental protection expenditures account for 6.8% of the General Fund and have increased by 6.9%, or \$265,000 over last year. This increase was due to the higher cost for the curbside recycling service of the County, part of the County's solid waste program. The program also includes operation of the manned convenience centers and the trash sticker program for curbside trash pickup. Also included in this category is Environmental Health, where there was a slight increase in expenditures this year. Expenditures in this category have increased by 14% over the past five years as shown in figure 14.

ENVIRONMENTAL PROTECTION (in millions)

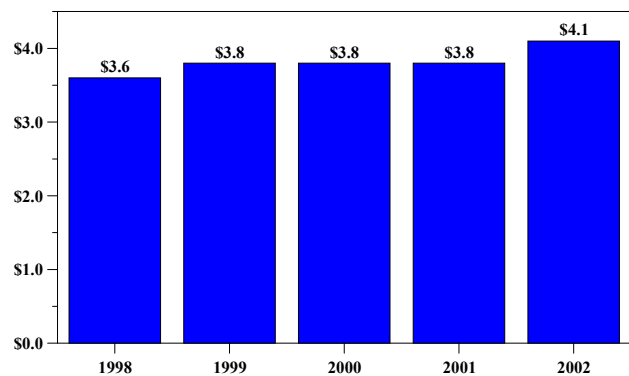


Figure 14

ECONOMIC DEVELOPMENT (in millions)

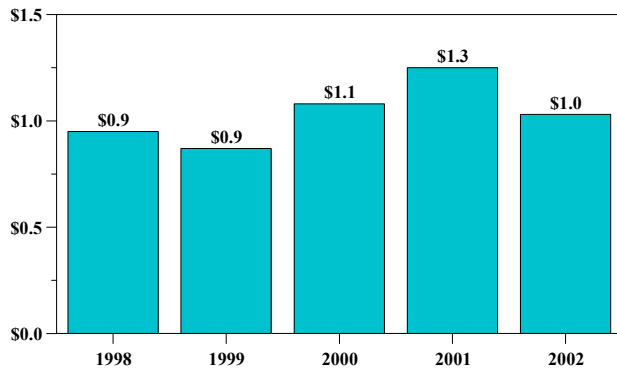


Figure 15

Economic development expenditures decreased by 18% during the fiscal year and account for 1.7% of the total General Fund (see figure 15). The decrease in expenditures was a result of the expenses connected with the recruitment of CargoLifter, incurred in fiscal 2001, including the acquisition of options to purchase land for CargoLifter. CargoLifter has delayed plans to expand to the United States indefinitely and the County does not intend on renewing any of the options purchased in fiscal 2001. The loss of this project was more than offset by the announcement of the BSH Home Appliances expansion.

Fund expenditures. The increase in expenditures in fiscal 2002 was primarily due to additional costs incurred in the dental program. This program operates a mobile dental trailer which rotates among elementary public schools in the County, as well as, Jones and Pamlico counties. Dental services are provided to children who are unable to obtain service. Most of these patients are covered by Medicaid and the program is generating sufficient revenue to cover the costs incurred.

Social services experienced an increase of 1.8% this fiscal year (see figure 16). Social services expenditures were \$18.6 million and account for 30.3% of the total County General Fund, the largest single segment of the total General Fund expenditures. Total Social Services expenditures increased by \$329,000 in fiscal 2002 over fiscal 2001. The County's portion of Medicaid increased by \$134,000, one of the smallest increases experienced in recent years. Subsidized day care payments actually declined by approximately \$120,000, (to \$3.7 million) from fiscal 2001. All of this day care costs is paid with Federal and State dollars or with funds from Smart Start, a State program aimed at preschool aged children.

SOCIAL SERVICES (in millions)

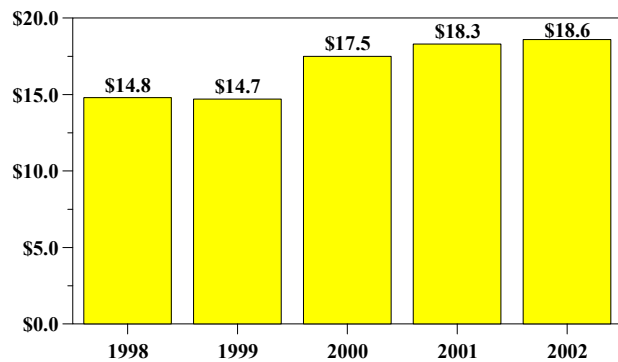


Figure 16

Culture and recreation include funds provided to the County recreation department, funds provided to the public libraries in the County, and the operational costs of the Convention Center. These expenditures accounted for 3.6% of the total General Fund and increased by 8.7% this fiscal year. The County again made an appropriation to the

Creekside Park development project of approximately the same amount as the prior year. Funding was also increased for the public libraries by 12.6% over the previous year, most of which was expended to buy a building for the new location of the library in Cove City. The library funding accounts for \$1,028,000 of this category's total costs. Operational costs of the Convention Center were \$584,000 in fiscal 2002 compared to \$520,000 in 2001. The expenditures for the convention center were offset by \$451,000 of revenue resulting in a net deficit of \$133,000, less than was budgeted. Although bookings are very good, this deficit is expected to continue and will be funded through the General Fund. Debt service for the construction cost is funded through the increased occupancy tax.

EDUCATION (in millions)

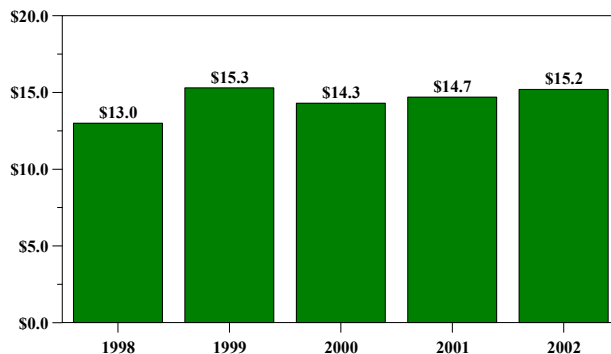


Figure 17

Education expenditures increased by 3.3% or \$489,000 this year over the prior year (see figure 17). Of the total \$15.2 million, \$13.1 million was provided to the Craven County Board of Education for public schools and \$2.1 million to the Craven County Community College. In addition to these education expenditures there was approximately \$3.1 million transferred from the County's General Fund to the Debt Service Fund to retire debt incurred to build public schools. During fiscal 2002 the remaining projects financed with the \$22 million 1996 state school bonds were completed. These funds were used to construct additions and make renovations at existing schools. During 2002 the County voters approved a \$28 million school bond referendum to build two replacement schools, two high school auditoriums and replace roofs on existing schools. This school bond is being financed through the debt service fund set up for school debt. The revenue sources for the debt service fund are the sales tax and ADM monies designated by statute for school capital needs. Funding for the Community College increased slightly in fiscal 2002. Construction began on the Community College campus in Havelock in fiscal 2002 financed with a \$1.8 million general obligation bond sold in 2001. The campus will consist of the Institute of Aeronautical Technology, to be built with State funds, and classroom and library buildings built with County funds. Debt service for this bond is being provided from the County General Fund. The library building will be a joint public/college facility.

Debt service expenditures account for approximately 1.8% of the General Fund. The dollar amount of debt service increased by approximately 16% in fiscal 2002 due to payments made on the \$1.8 million Community College bond issued in fiscal 2001. The debt service on school bonds issued in 1990, 1996 and 2002 is paid out of the Debt Service Fund and is not part of the debt service of the General Fund. The General Fund debt service is for the Community College bonds, the Human Services Complex building, and the Courthouse Annex.

General Fund Balance. The County continues to work toward the goal of funding all current services out of current revenues and at the same time strengthening the fund balance. The General Fund balance should be at a level that is sufficient to meet the working capital needs of the County and provide for emergency expenditures. The General Fund balance increased by \$695,069 to \$17.6 million this fiscal year, an increase of 4.1%. This increase was somewhat unexpected due to revenues being lower than budgeted as a result of the general economy and the State withholding revenues. Midway during the year, when it became apparent that revenues would not be up to budgeted levels, the County took measures to control expenditures, by restricting capital outlay, personnel costs, and travel and training costs. These steps were successful in keeping these line items well below budget and coupled with a lower than budgeted Medicaid cost resulted in total General Fund expenditures of \$4.6 million below the budgeted amount.

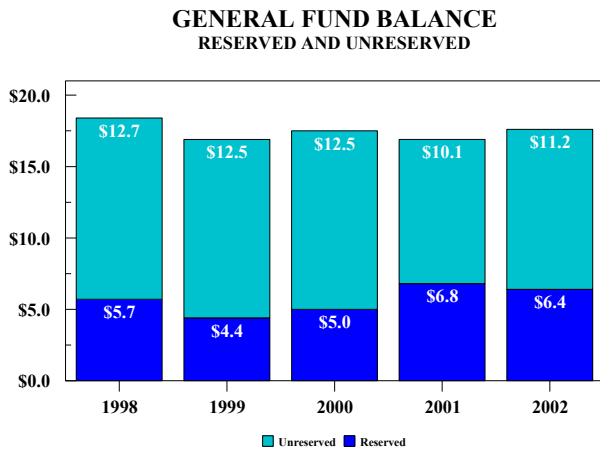


Figure 18

Of the total \$17.6 million fund balance, only \$11.2 is available for appropriation by the County while the balance, reserved by state statute, for E-911, for Register of Deeds and for law enforcement is not available. This represents an increase of approximately \$1.1 million in available fund balance from last fiscal year and is accounted for by the \$695,000 overall increase in fund balance from the current year as well as a reduction in the amount reserved by state statute. Approximately \$1.3 million of the General Fund balance has been appropriated in the fiscal 2003 budget for operations in order to maintain the program and service delivery. It is anticipated that this amount will allow the County to maintain the same level of fund balance for the upcoming year. Figure 18 shows the County's General Fund balance for the past five fiscal years and the breakdown of the reserved versus unreserved balances.

Enterprise Operations - Water and Sewer Funds. Operating revenue for the water and sewer funds rose by 4.7% from the last fiscal year. This increase was entirely the result of the water fund as both the sewer and industrial park funds showed a decline in revenues due to the sale of these systems to the City of New Bern during fiscal 2002. Water rates were increased by 10% on July 1, 2001 in anticipation of costs to be incurred to service debt on the Northwest Craven project and costs connected with the evaluation of alternative water sources for the County. During fiscal 2002, operating expenses decreased by \$358,000. Depreciation of the system accounted for

approximately \$99,000 of this decrease as a result of the sale of the sewer and industrial park systems. The balance of the decrease was in the water operation and was due primarily to a reduction in personnel cost and maintenance cost of the system.

The net loss for the total water and sewer enterprise operations for fiscal 2002 was \$2.6 million. This loss was a result of recording the loss on the sale of the sewer and industrial park systems in the amount of \$5.7 million, largely due to contributed capital of \$4.1 million as a result of assets acquired through grants. The decision to sell these systems to the City of New Bern were made after careful study. The sewer system was a small system in the Neuse River Water and Sewer District which relied on growth for its existence. With the growing presence of the City of New Bern in the District, due to voluntary annexations, it became apparent that the growth needed to continue this system was not likely to occur. The County served only as a conduit in the industrial park water and sewer operation. The system was constructed by the County, largely with grants, but both the water and the sewer service was purchased from the City of New and resold to park tenants. The rates negotiated with the City for both the Neuse River sewer system and the Industrial Park water and sewer system will be equal to or lower for the customers as those previously charged by the County.

The water operations had operating income of \$1 million and a net income of \$3.4 million, the difference being due to the grant of \$2.4 million for the Township 6 project. The water operations continue to expand and maintain a strong financial position. A major upgrade project was nearing completion at the end of fiscal 2002. This project totals approximately \$2.8 million and was a line upgrade through Township 6 as well as the construction of a new well. This project was funded entirely with a grant from the State. In fiscal 2003 a project installing additional lines in the northwest portion of the County will be undertaken and is funded with a low interest rate loan from the State.

Debt Administration. Craven County maintained its A1 rating from Moody's Investors Service and A+ from Standard and Poor's this past year. The County issued a \$28 million general obligation bond during 2002 for the public schools, as has been previously discussed. The total outstanding general obligation bonded debt at June 30, 2002, was \$46,930,000 excluding the general obligation debt of the water and sewer districts and the bonds for the Airport Terminal Project. The amounts required each year to meet the debt service for general obligation debt is shown in figure 19. This debt consists of the 1996 school bond, the 2001 Community College bond, and the 2002 school bond. During the year the general obligation bonds issued in 1993 by the Tuscarora-Rhems Water District were paid off prior to maturity. These bonds carried a 5.625% interest rate and had an outstanding amount of only \$56,000. In August, 2002, the 1990 Northwest Craven Water District bonds with an outstanding principal of \$550,000 were also retired before maturity. These bonds had an interest rate of approximately 7%. Substantial savings will be realized as a result of the early retirement of this issue. Approximately \$3.8 million of debt was transferred to the City of New Bern in connection with the sale of the sewer

GENERAL OBLIGATION DEBT SERVICE
ANNUAL AMORTIZATION REQUIREMENTS

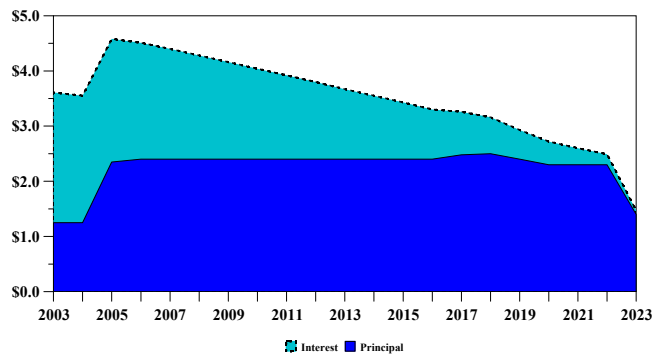


Figure 19

INVESTMENT PORTFOLIO

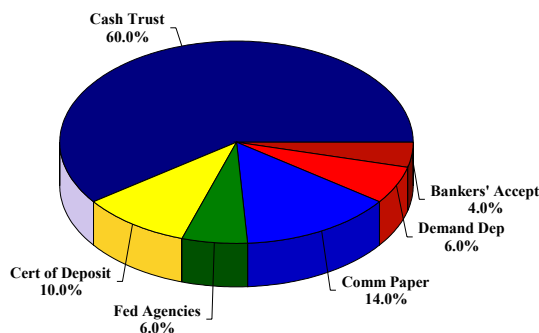


Figure 20

Cash Management. Cash temporarily idle during the year was invested in demand deposits, certificates of deposit commercial paper, federal government securities, banker's acceptances or the North Carolina Capital Management Trust (a money market mutual fund established for North Carolina local governments). At all times, consideration was given to earning the highest yields on investments while maintaining the safety and liquidity of those monies. Figure 20 shows the composition of the County's portfolio at June 30, 2002.

The graph shows a much more liquid position than past years due to the fall of rates during the year and the uncertainty of potential rate changes in the future.

Interest earned on investments, in all funds of the primary government, was \$793,000 for the year. The investment yield on the portfolio for the year was 2.40% as compared to 5.69% last year. The cash and investment portfolio balance at June 30, 2002, was \$49.7 million, compared to \$25.8 million last year. The large increase is due to the receipt of the proceeds of the \$28 million school bond of which approximately \$25 million was on hand at June 30, 2002. The average daily portfolio balance this fiscal year was \$34.0 million or \$2.9 million higher than last year due to the bond proceeds.

Risk Management. Craven County provides protection from liability and casualty risks through a combination of partially self-funded programs, joint risk management pools and commercial coverage. Faced with escalating health insurance costs, the County chose in 1990 to enter into a self-funded health insurance program, with administrative services provided through a contract administrator. The County uses an internal service fund to account for the self-funded health insurance. The past year was again one of high claims payments although the Internal Service Fund ended the year with a \$235,000 net income. As a result, rates were increased for fiscal 2002 for both the employer and employee portion of health coverage. This was the second consecutive year that rates had to be increased due to rising health care costs. Risk to the County is restricted by a specific stop-loss limit of \$50,000 per individual per year and a negotiated aggregate stop-loss limit based on prior year claim history. This protection is provided through coverage acquired from a commercial underwriter. During fiscal 2002, the County continued its participation in the risk management pool operated by the North Carolina Association of County Commissioners for liability, property, and worker compensation coverage. The County will evaluate this decision on a year by year basis. Flood insurance on the convention center building, the only County building located in a flood zone, was obtained through a commercial carrier.

OTHER INFORMATION

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a certificate of Achievement for Excellence in Financial Reporting to the County of Craven for its comprehensive annual financial report for the fiscal year ended June 30, 2001, the twelfth consecutive year this award was received. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements and we are submitting it to GFOA.

Independent Audit. North Carolina General Statutes require an annual audit by an independent certified public accountant. The accounting firm of McGladrey and Pullen, LLP, CPAs, was selected by the County to perform this audit. The auditor's report on the general purpose financial statements, combining and individual fund statements, and schedules is included in the financial section of this report. The statutes also require the County's audit to include a compliance audit of all applicable federal and state financial assistance that meets the regulations of the Single Audit Act of 1984 and related OMB Circular A-133. The compliance audit and the related schedule of federal and state financial assistance are included as the Compliance section of the comprehensive annual financial report.

Acknowledgments. The preparation of the comprehensive annual financial report was made possible by the entire Craven County Finance Department: Linda A. LeDrew, Assistant Finance Officer, Carolyn Mattocks, Mary Ann Harper, Rosie Brinson, Andrea Brookins, Rosemary Osterhus, Donna Nelson, Patricia McDaniel and Aletta

Brown. Also of significant assistance in the preparation of the report were Charles Smith and Jerry Cox of McGladrey & Pullen, LLP.

The information presented in this report illustrates the progressive leadership and support provided by the Craven County Board of Commissioners. Without the Board's guidance and initiative, the financial activities of Craven County would not be able to operate in a fiscally stable and responsible manner.

Sincerely,

CRAVEN COUNTY, NORTH CAROLINA

Harold Blizzard

County Manager

Richard F. Hemphill

Finance Officer